HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Hamilton and Brantford CMAs

CANADA MORTGAGE AND HOUSING CORPORATION

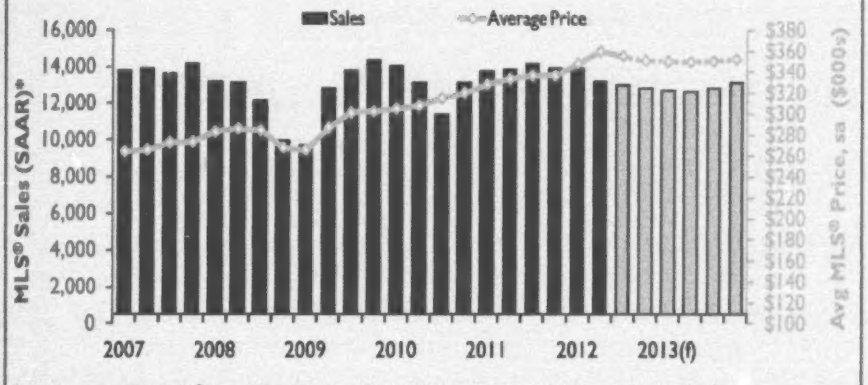
Date Released: Fall 2012

Market at a Glance

- Existing home sales to decline in late 2012 and into 2013 as modest job growth and mortgage changes dampen homeownership demand.
- Existing home average prices in both Hamilton and Brantford will become passive in 2013 as each resale market entrenches deeper into balanced territory.
- In 2013, residential construction activities will return to historical levels and in line with household formation.
- Improving job and income growth and higher net migration will support housing demand by second half of 2013.

Figure 1

Hamilton's Existing Home Sales to Moderate in 2013



Source: CREA (MLS®); f = CMHC forecast; *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

*The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Home Market

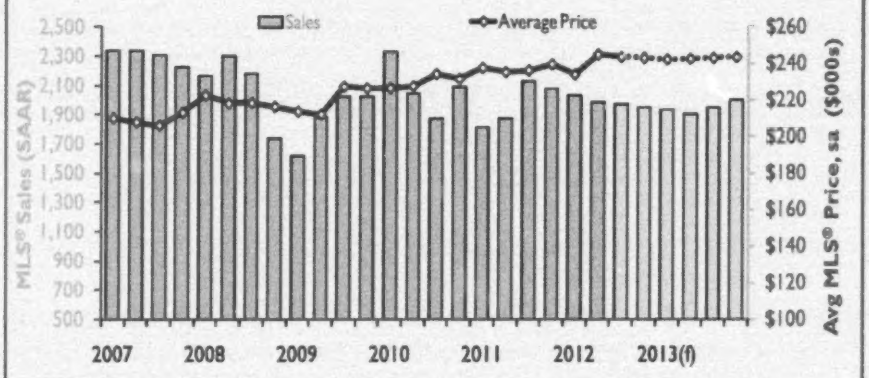
Existing home sales to moderate in 2013

In late 2012 through 2013, existing home sales in Hamilton and Brantford are expected to moderate. Generally, the Hamilton and Brantford housing markets exhibit similar characteristics – probably due to their close proximity. While the new mortgage rules will ensure stability in housing and mortgage markets over the longer term, the new mortgage regulations will restrain some first-time home buyers from qualifying for mortgage financing in the immediate term.

Even as existing home sales decrease in 2013, Hamilton and Brantford CMAs will still report more activity than the 20-year average sales of 10,800 units and 1,760 units respectively. Low mortgage rates will continue to support a healthy existing home market in both Hamilton and Brantford. As well, the market will benefit from other factors. Net migration to Hamilton doubled in 2011 from the recession levels in 2008. More specifically, net migration totalled approximately 19,500 persons during the last four years. In addition, improving labour market conditions will begin to support housing demand by the second half of 2013. Ultimately, the aforementioned factors will partially mitigate the impact of tighter mortgage rules.

Figure 2

Brantford's Existing Home Sales will Stabilize in 2013



Source: CREA (MLS®); f = CMHC forecast; *SAAR (Seasonally Adjusted Annual Rate).
Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

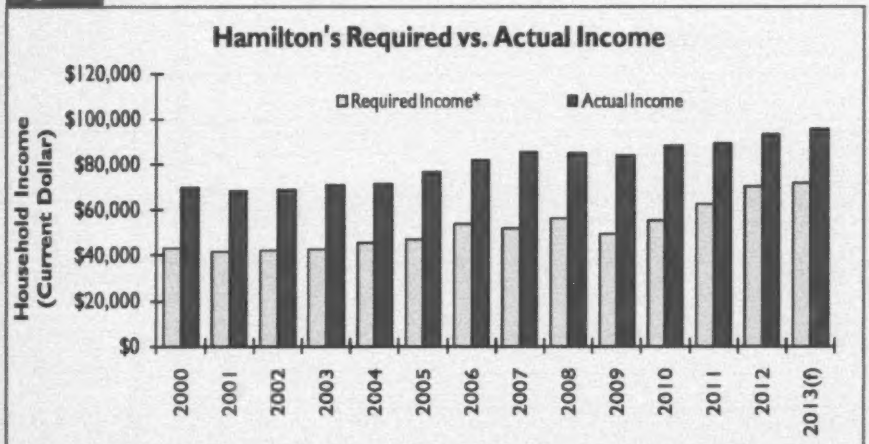
More balanced market conditions will slow price growth

Although the existing home markets in Hamilton and Brantford will moderate by the end of 2012, average resale home prices will still grow approximately five per cent and two per cent respectively this year. With more new listings coming onto the market and thereby outpacing the number of sales, price increases will not be as brisk in 2013.

As a leading predictor of future average MLS® price gains, the current sales-to-new-listings ratio (SNLR) is pointing towards more balanced market conditions in Hamilton and Brantford. For several years, the SNLR has held firmly between the sellers' territory and the upper boundary of a balanced market. In 2013, CMHC anticipates the number of new listings to reach a new high, which in turn will further pull down the SNLR. A consistent drop in the ratio generally suggests a future moderation in existing home average price growth

Figure 3

Hamilton's Required vs. Actual Income

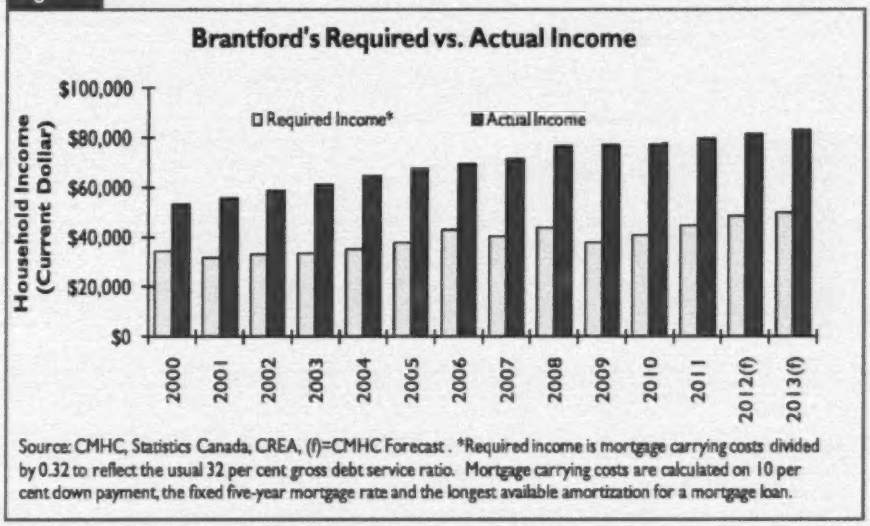


Source: CMHC, Statistics Canada, CREA, (f)=CMHC Forecast . *Required Income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

– a condition that underscores our expectation for next year.

Given that prices are anticipated to grow at a rate lower than the historical average coupled with steady income gains, homeownership affordability in Hamilton and Brantford will improve slightly by the second half of 2013. According to the latest CMHC calculation, the required income to buy a home in Hamilton and Brantford is projected to slightly decline relative to the actual income for the average household. Improved affordability will attract more prospective homebuyers and therefore help stabilize the housing market by the second half of 2013.

Figure 4



Source: CMHC, Statistics Canada, CREA, (f)=CMHC Forecast . *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

New Home Market

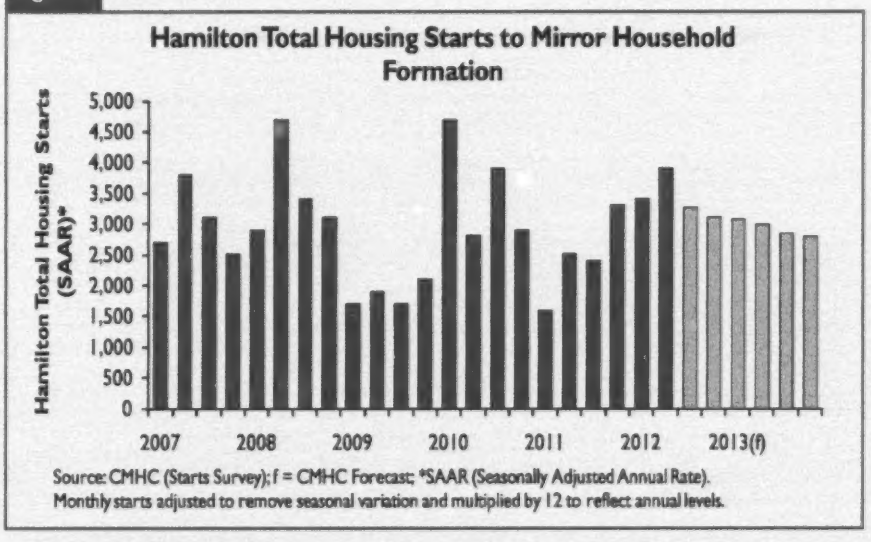
Total housing starts to mirror household formation

Hamilton total housing starts in 2012 are poised to surpass last year's level. In 2013, however, housing starts will revert to historic norms and in line with the rate of household formation. While stable economic conditions will continue to favour high levels of new home construction, there are a number of factors that will cause the pace of activity to moderate next year. The resale market is expected to firmly entrench in balanced territory with more listings coming onto the market. As this happens, there will be less spill-over of buyers from the existing home market into the new home market. As well, rising construction costs will contribute to an increased price differential between new and existing homes, which will cause demand for new homes to slow – particularly for the more expensive single-detached homes.

Brantford total housing starts to ease

Brantford total housing starts are forecast to decrease in 2013. However, apartment demand will continue to be strong as some first-time buyers remain cautious and may delay the movement into homeownership. Improving labour market conditions among the youth population (aged 15-24) is a contributing factor. In fact, on a year-over-year basis, employment among this age group has been increasing consistently since June 2012. Generally, under favourable economic conditions, young adults are encouraged to form a separate household. The increased prospect of new household formation among potential renters will boost the

Figure 5



Source: CMHC (Starts Survey); f = CMHC Forecast; *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

demand for rental accommodation and subsequently support apartment starts this year and next.

Local Economy

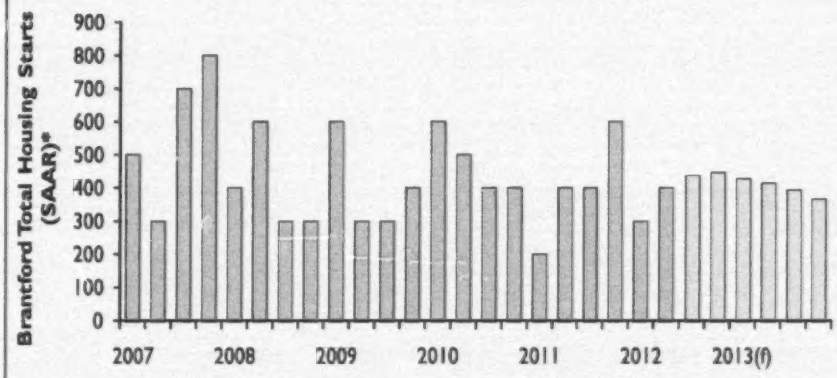
Employment to improve in 2013

Economic growth remains subdued in Ontario, as fiscal restraint, a strong Canadian dollar and weak global demand will tame GDP growth below historical standards in 2012. Following Ontario's trend, slow growth is expected for Hamilton this year before a modest rebound in the second half of 2013. The pattern in Hamilton employment in the 2008 to 2011 period appeared more responsive to the U.S. economic growth. In fact, as of September 2012, manufacturing constitutes the second largest sector in Hamilton – accounting for approximately twelve per cent of total employment in the area. In a nutshell, any fiscal and/or monetary stimulus measures that improve the U.S. economic outlook will potentially boost the demand for Hamilton's manufacturing products. Given the different levels of recovery among various key economic sectors in the area, on balance, the local economy in Hamilton is projected to create approximately 3,000 new jobs in 2013.

The key economic drivers in Hamilton and Brantford CMAs appear to be relatively the same with higher concentration in the goods-producing sector. The share of manufacturing jobs in Brantford reached 18 per cent in September 2012, down from 22 per cent in September 2008 – a period during which the global recession knocked on Canada's door. As in Hamilton, economic activity in Brantford will improve by the second half of 2013. More specifically, employment in Brantford is projected to increase by 1.5 per cent in 2013. Meanwhile, the unemployment rate will trend downward at 8.2 per cent in 2012 and 8.0 per cent in 2013.

Figure 6

Brantford Total Housing Starts will Decrease in 2013



Source: CMHC (Starts Survey); f = CMHC Forecast; *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

Health care sector to remain vital in Brantford

With an aging population and a longer life expectancy, the health care industry has one of the best growth potential of any sector. This sector accounts for approximately 13 per cent of total employment in Brantford – up from 11 per cent in 2008. Due to its steady growth trajectory, the health care sector is currently the second largest in Brantford surpassing the retail trade sector. Nonetheless, manufacturing remains the largest sector in Brantford.

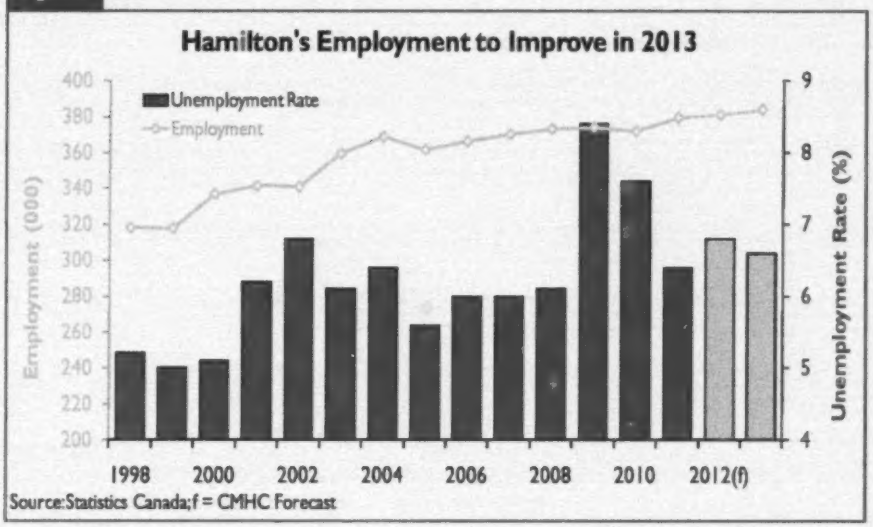
During the recession, the health sector helped soften the impact of manufacturing job losses in the area. Put in perspective, between September 2008 and September 2012, the health care sector created about 1,400 jobs in Brantford. In comparison, during the same period, the manufacturing and retail trade sectors lost approximately 2,600 and 1,700 jobs respectively. In essence, these two sectors are yet to return to pre-recession levels – suggesting that significant slacks remain in Brantford's labour market.

Net migration in Hamilton and Brantford to continue support housing demand

The Hamilton and Brantford CMAs will continue to attract newcomers to the areas – particularly migrants coming from the GTA. Based on recent trends, the house price differential between Toronto and Hamilton remains significant enough to encourage more people to move from the GTA into the Hamilton CMA. Consequently, the Hamilton CMA has seen net migration doubled from recession levels. Looking ahead, in the next two years, net

migration in Hamilton and Brantford will remain above 6,000 and 400 respectively. In terms of demographic composition, both CMAs will see a higher proportion of younger migrants as evidenced by recent data from the 2011 census. For instance, the proportion of the 15 to 24 age group in Hamilton increased to 2,114 persons in 2011- up from 743 persons in 2006. Typically, the size of a population, and particularly the number of households, determines the demand for housing. As well, migration influences the type of dwellings that will be demanded.

Figure 7



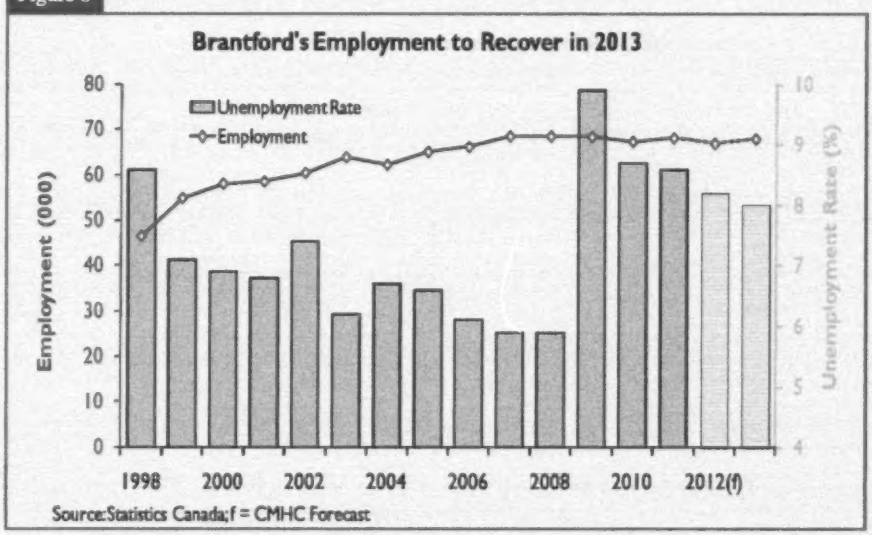
Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Figure 8



Forecast SUMMARY Hamilton CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	12,680	12,934	13,932	13,400	-3.8	13,100	-2.2
MLS® New Listings	17,796	20,200	20,869	19,000	-9.0	19,500	2.6
MLS® Average Price ($)	290,946	311,683	333,498	350,000	4.9	352,000	0.6
New Home Market							
Starts:							
Single-Detached	899	1,753	1,370	1,500	9.5	1,400	-6.7
Multiples	961	1,809	1,092	1,700	55.7	1,390	-18.2
Semi-Detached	134	246	28	80	185.7	50	-37.5
Row/Townhouse	473	933	675	1,020	51.1	860	-15.7
Apartments	354	630	389	600	54.2	480	-20.0
Starts - Total	1,860	3,562	2,462	3,200	30.0	2,790	-12.8
Average Price ($):							
Single-Detached	445,600	453,563	493,315	510,000	3.4	512,000	0.4
New Housing Price Index (% chg.)	-1.1	1.6	0.8	1.5	-	1.3	-
Rental Market							
October Vacancy Rate (%)	4.0	3.7	3.4	2.8	-0.6	2.5	-0.3
Two-bedroom Average Rent (October) ($)	831	862	884	905	-	925	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-0.15	3.78	0.41
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-0.11	5.37	0.11
Annual Employment Level	374,100	371,800	379,400	381,000	0.4	384,000	0.8
Employment Growth (%)	0.3	-0.6	2.0	0.4	-	0.8	-
Unemployment rate (%)	8.4	7.6	6.4	6.8	-	6.6	-
Net Migration	3,779	6,495	6,176	6,400	3.6	6,500 **	

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast SUMMARY Brantford CMA Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,884	2,086	1,971	2,000	1.5	1,950	-2.5
MLS® New Listings	3,321	3,409	3,311	3,260	-1.5	3,320	1.8
MLS® Average Price ($)	220,369	229,678	237,283	241,500	1.8	243,500	0.8
New Home Market							
Starts:							
Single-Detached	258	280	231	280	21.2	250	-10.7
Multiples	59	224	197	140	-28.9	105	-25.0
Semi-Detached	14	10	4	20 **		10	-50.0
Row/Townhouse	42	143	132	90	-31.8	85	-5.6
Apartments	3	71	61	30	-50.8	55	83.3
Starts - Total	317	504	428	420	-1.9	400	-4.8
Average Price ($):							
Single-Detached	282,081	346,660	361,834	360,000	-0.5	362,500	0.7
New Housing Price Index (% chg.) (Ont.)	0.1	2.4	3.6	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	3.3	3.7	1.8	1.3	-0.5	1.1	-0.2
Two-bedroom Average Rent (October) ($)	754	778	792	810	-	830	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-0.15	3.78	0.41
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-0.11	5.37	0.11
Annual Employment Level	68,500	67,400	68,200	67,000	-1.8	68,000	1.5
Employment Growth (%)	-0.1	-1.6	1.2	-1.8	-	1.5	-
Unemployment rate (%)	9.9	8.7	8.6	8.2	-	8.0	-
Net Migration (Ont.)	603	468	463	400	-13.6	450	12.5

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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